Examiner's report

F2 Management Accounting
June 2011

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General Comments
This was the eighth examination under the current syllabus. The two hour paper, as usual, contained 50 multiple choice questions – 40 carried two marks each and the other 10 carried one mark each. This mix continues to be exactly in line with the pilot paper. The improvement in the overall general performance of candidates referred to in the last Examiner's Report was maintained at this sitting. The performance on an individual question basis also improved, compared with the December 2010 sitting. On this occasion, there were just eight questions where the correct answer was not selected by at least 40% of the candidates. It is interesting to note that five of these were 'written' style questions [that is no calculations were involved in answering them].

The following questions taken from the June 2011 examination are ones where the performance of candidates was weak – in each case less than 40% of the candidates selected the correct answer. Each of these questions carried 2 marks and each related to a mainstream topic in the Study Guide.

Sample Questions for Discussion

Example 1
Are the following statements, which refer to documents used in the material procurement procedures of a company, true or false?

(i) All purchase requisitions are prepared in the purchasing department and are then sent out to suppliers.
(ii) All goods received notes are prepared in the goods inwards department.

	Statement (i)	Statement (ii)
A	False	False
B	True	True
C	True	False
D	False	True

The correct answer was D. This question tested Section D1(a) in the Study Guide.

A purchase requisition is completed in the department which requires the goods and then sent to the purchasing department where a purchase order is raised to send to the supplier. Therefore statement (i) is false. Statement (ii) is true.

Example 2
A company uses standard marginal costing. Last month the standard contribution on actual sales was $40,000 and the following variances arose:

Sales price variance	$1,000 Favourable
Sales volume contribution variance	$3,500 Adverse
Fixed overhead expenditure variance	$2,000 Adverse

There were no variable cost variances last month.

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What was the actual contribution for last month?
A $35,500
B $37,500
C $39,000
D $41,000

The correct answer was D. This question tested Section E5(b) of the Study Guide – the reconciliation of budgeted and actual contribution under marginal costing.

The fixed overhead expenditure variance is not relevant to a reconciliation of budgeted and actual **contributions**. Fixed costs are deducted afterwards from contribution to arrive at profit. The figure of $40,000 given in the question as the 'standard contribution on actual sales' means that the effect of the sales volume contribution variance has already been taken into account in arriving at that figure of $40,000. Budgeted contribution is adjusted for the sales volume contribution variance to arrive at the figure for 'standard contribution on actual sales'. Therefore the only variance that needs to be taken into account in this particular question is the **favourable** sales price variance as follows: [40,000 + 1,000] = $41,000.

Both answers A and B were more popular choices by candidates than the correct answer [D]. Candidates choosing A presumably adjusted for all three variances and those choosing B adjusted for both sales variances.

Example 2 in the December 2010 Examiner's Report related to a similar question.

Example 3
A company uses flexed budgets. The fixed budget for last month was based on 100% activity and showed direct costs of $100,000. Last month's actual direct costs were compared with the flexed budget to show the following:

	Actual	Variance
Direct costs	$93,600	$2,400 Adverse

What was the actual activity as a % of the fixed budget last month?
A 91.2%
B 93.6%
C 96.0%
D 97.5%

The correct answer was A. This question tested section E3(a) in the Study Guide.

The actual costs were $93,600 and when compared with the flexed budget this gave an **adverse** variance of $2,400. Therefore the flexed budget was [93,600 – 2,400] = $91,200. Budgets are flexed based on **activity** levels. As $100,000 of direct costs represented a 100% activity level then flexed budget direct costs of $91,200 represents a 91.2% level of activity [actual activity as a % of the fixed budget].

Answer B was the most popular choice by candidates. The mistake here was to express actual **costs** as a percentage of budgeted **costs** rather than basing the calculation on **activity** levels. Candidates choosing C treated the adverse variance as favourable so that $[93,600 + 2,400] is 96.0% of $100,000. Answer D [chosen by more than 13% of the candidates] could be calculated as $93,600 expressed as a percentage of $96,000.

Future candidates are advised to:

- Study the whole syllabus.
- Practise as many questions as possible in preparing for the examination.
- Read questions very carefully in the examination.
- Read previous Examiner's Reports.